

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Washtenaw County Road Commission</u>	County <u>Washtenaw</u>
Audit Date <u>December 31, 2003</u>	Opinion Date <u>February 13, 2004</u>	Date Accountant Report Submitted To State: <u>March 12, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |  |   |
|--|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no                              | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input type="checkbox"/> no <input checked="" type="checkbox"/> n/a | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no                              | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Washtenaw County Road Commission**

**(a component unit of Washtenaw County)**

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**Financial Report**  
**with Supplementary Information**  
**December 31, 2003**

# Washtenaw County Road Commission

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## Independent Auditor's Report

To the Board of Road Commissioners  
Washtenaw County Road Commission

We have audited the accompanying basic financial statements of the Washtenaw County Road Commission (a component unit of Washtenaw County) as of and for the year ended December 31, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washtenaw County Road Commission at December 31, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information presented on page 21 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Washtenaw County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

February 13, 2004

A member of



A worldwide association of independent accounting firms

# **Washtenaw County Road Commission**

## **Management's Discussion and Analysis**

As management of the Washtenaw County Road Commission, we offer the following discussion and analysis of the financial statements as an overview of the financial activities of the Road Commission for the fiscal year ended December 31, 2003.

### **Overview of the Financial Statements**

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2003. Please read this in conjunction with the financial statements.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether the full cost of providing services to date has been funded.

The statement of governmental funds revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the Road Commission's money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether the full cost of providing services this year was funded on a current basis.

Supplementary information is also provided for additional information purposes.

### **Financial Analysis**

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$57,124,159 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net assets have increased by \$12.9 million (page 7). This is attributed to the addition of infrastructure assets.

# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below. It should be noted that only the current and prior year's infrastructure are included in this analysis. Retroactive infrastructure will be included in subsequent reports, within a period not exceeding five years.

### Condensed Statement of Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and other assets	\$ 10,226,869	\$ 12,978,031
Capital assets	58,234,112	43,477,140
Total assets	68,460,981	56,455,171
<b>Liabilities</b>		
Long-term liabilities outstanding	6,998,265	7,803,947
Other liabilities	4,338,557	4,399,692
Total liabilities	11,336,822	12,203,639
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	51,164,112	35,667,140
Unrestricted	5,960,047	8,584,392
Total net assets	<u>\$ 57,124,159</u>	<u>\$ 44,251,532</u>

# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

### Condensed Statement of Activities

	Governmental Activities	
	2003	2002
<b>Revenue</b>		
State aid	\$ 16,898,185	\$ 15,964,043
Federal sources	4,465,949	3,069,878
Local and other sources	8,666,964	12,086,901
Total revenue	30,031,098	31,120,822
<b>Expenses</b>		
Maintenance	11,028,966	9,496,017
Administrative	1,842,314	1,624,955
Depreciation	3,358,117	2,295,074
Interest and other	929,074	929,616
Total expenses	17,158,471	14,345,662
<b>Change in Net Assets</b>	<b>\$ 12,872,627</b>	<b>\$ 16,775,160</b>

### Road Fund Budgetary Highlights

The Road Commission amended its 2003 budget on three occasions during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget was \$2.5 million lower than the original budget primarily due to the deferral of several major road improvements. Those projects include the Dixboro Bridge, portions of the Hitchingham Road, and the Huron River Bike Path. The actual 2003 revenues were almost \$478,000 higher than the amended budget due to higher than expected MTF receipts, as well as additional funding for the Jackson Boulevard IIB project. The actual 2003 expenditures were approximately \$432,000 higher than the amended budget due to a more severe winter than anticipated.

### Capital Assets

The Road Commission had \$58,234,112 in capital assets at the end of the fiscal year. The reason for the \$14.8 million increase from the previous year is twofold: (1) purchases of new equipment, and (2) an increase in infrastructure costs. Retroactive reporting of infrastructure historical costs and depreciation will be included in subsequent financial statements. This will continue to be the largest asset class.

# Washtenaw County Road Commission

## Management's Discussion and Analysis (Continued)

### Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	2003	2002
Land	\$ 5,081,221	\$ 3,761,387
Buildings and storage bins	10,134,880	10,241,698
Road equipment	2,676,692	2,416,915
Other equipment	726,579	776,921
Infrastructure	39,614,740	26,280,219
Totals	<u>\$ 58,234,112</u>	<u>\$ 43,477,140</u>

### Economic Factors and Next Year's Budget

The general economic activity expanded during 2003, which resulted in Michigan Transportation Fund (MTF) revenues increasing compared to 2002 receipts. The Michigan Department of Transportation (MDOT) has provided a MTF forecast for 2004 and it anticipates that the Washtenaw County Road Commission will receive \$500,000 (4 percent) more in MTF revenues in 2004. This forecast is based on continued economic recovery and fee increases for vehicle registration. The actual 2004 revenues and expenditures will be monitored on a quarterly basis in order to maintain a balanced budget.

Overall, the 2004 budget includes significantly higher expenditures than 2003 primarily due to the construction of the following projects: Dixboro Bridge, Textile/State, and Textile/Tuttle Hill. Funding for these projects will include federal aid, local municipality, and Road Commission contributions.

Revenues are expected to be higher in 2004 primarily due to an increase in MTF, as well as additional federal aid projects and reimbursements from townships for Fosdick Road SAD, Warner Road SAD, Textile/Tuttle Hill Intersection, Textile/State Intersection, and the County Parks Huron River Drive Bike Path project.

### Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.



# Washtenaw County Road Commission

## Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2003

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
<b>Assets</b>					
Cash and investments (Note 3)	\$ 5,044,627	\$ 35,676	\$ 5,080,303	\$ -	\$ 5,080,303
Receivables:					
Accounts (Note 1)	4,133,936	-	4,133,936	-	4,133,936
Special assessments	-	92,135	92,135	-	92,135
Inventory	774,086	-	774,086	-	774,086
Prepaid expenses and other	146,409	-	146,409	-	146,409
Capital assets - Net (Note 4):					
Assets being depreciated	-	-	-	53,152,891	53,152,891
Assets not being depreciated	-	-	-	5,081,221	5,081,221
<b>Total assets</b>	<b>\$ 10,099,058</b>	<b>\$ 127,811</b>	<b>\$ 10,226,869</b>	<b>58,234,112</b>	<b>68,460,981</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 389,570	\$ -	\$ 389,570	-	389,570
Advances	2,964,335	-	2,964,335	-	2,964,335
Accrued liabilities	101,888	-	101,888	117,764	219,652
Deferred revenue	-	92,135	92,135	(92,135)	-
Bonds and contracts payable, due within one year (Note 6)	-	-	-	765,000	765,000
Bonds and contracts payable, due in more than one year (Note 6)	-	-	-	6,305,000	6,305,000
Other long-term liabilities (Note 5)	-	-	-	693,265	693,265
<b>Total liabilities</b>	<b>3,455,793</b>	<b>92,135</b>	<b>3,547,928</b>	<b>7,788,894</b>	<b>11,336,822</b>
<b>Fund Balances</b>					
Reserved:					
Inventory	774,086	-	774,086	(774,086)	-
Prepaid expenses	146,409	-	146,409	(146,409)	-
Unreserved - Designated for:					
Debt service	1,203,267	-	1,203,267	(1,203,267)	-
Employee retirement benefits	2,121,656	-	2,121,656	(2,121,656)	-
Capital improvements	680,303	-	680,303	(680,303)	-
Capital outlay	250,000	-	250,000	(250,000)	-
Insurance retention	1,037,544	-	1,037,544	(1,037,544)	-
Construction	430,000	-	430,000	(430,000)	-
Unreserved and undesignated	-	35,676	35,676	(35,676)	-
<b>Total fund balances</b>	<b>6,643,265</b>	<b>35,676</b>	<b>6,678,941</b>	<b>(6,678,941)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,099,058</b>	<b>\$ 127,811</b>	<b>\$ 10,226,869</b>		
<b>Net Assets</b>					
Investments in capital assets - Net of related debt				51,164,112	51,164,112
Unrestricted				5,960,047	5,960,047
<b>Total net assets</b>				<b>\$ 57,124,159</b>	<b>\$ 57,124,159</b>

# Washtenaw County Road Commission

## Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended December 31, 2003

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>					
State aid - Michigan Transportation Fund	\$ 16,898,185	\$ -	\$ 16,898,185	\$ -	\$ 16,898,185
State trunkline maintenance	1,989,373	-	1,989,373	-	1,989,373
Federal and state sources	4,465,949	-	4,465,949	-	4,465,949
Revenue from local governments	4,247,331	-	4,247,331	(70,697)	4,176,634
Collections of special assessments	-	47,746	47,746	(47,746)	-
Gain on sale of asset	-	-	-	130,024	130,024
Interest, fees, and other revenue	2,322,739	48,194	2,370,933	-	2,370,933
<b>Total revenue</b>	<b>29,923,577</b>	<b>95,940</b>	<b>30,019,517</b>	<b>11,581</b>	<b>30,031,098</b>
<b>Expenditures/Expenses</b>					
Current:					
Primary construction/Heavy maintenance	10,993,854	-	10,993,854	(10,993,854)	-
Local construction/Heavy maintenance	5,573,472	-	5,573,472	(5,573,472)	-
Primary routine maintenance	4,849,843	-	4,849,843	-	4,849,843
Local routine maintenance	5,443,771	-	5,443,771	-	5,443,771
State maintenance	1,936,785	-	1,936,785	-	1,936,785
Equipment and capital outlay	1,417,739	-	1,417,739	(1,417,739)	-
Less equipment rental and other charged to other expenditures	(1,201,433)	-	(1,201,433)	-	(1,201,433)
Administrative	1,882,996	-	1,882,996	(40,682)	1,842,314
Other services	588,451	-	588,451	-	588,451
Depreciation expense	-	-	-	3,358,117	3,358,117
Debt service:					
Principal retirement	670,000	70,000	740,000	(740,000)	-
Interest	342,878	9,830	352,708	(12,085)	340,623
<b>Total expenditures</b>	<b>32,498,356</b>	<b>79,830</b>	<b>32,578,186</b>	<b>(15,419,715)</b>	<b>17,158,471</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(2,574,779)</b>	<b>16,110</b>	<b>(2,558,669)</b>	<b>15,431,296</b>	<b>12,872,627</b>
<b>Fund Balances/Net Assets - January 1, 2003</b>	<b>9,218,044</b>	<b>19,566</b>	<b>9,237,610</b>	<b>35,013,922</b>	<b>44,251,532</b>
<b>Fund Balances/Net Assets - December 31, 2003</b>	<b>\$ 6,643,265</b>	<b>\$ 35,676</b>	<b>\$ 6,678,941</b>	<b>\$ 50,445,218</b>	<b>\$ 57,124,159</b>

# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2003

### Note 1 - Significant Accounting Policies

The Road Commission of the County of Washtenaw, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective January 1, 2001, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Road Commission has elected to implement the general provisions of the statement with the exception of the retroactive reporting of infrastructure (see Note 4).

#### **Basic Financial Statements - Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2003

### Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

The Subdivision Improvements Fund (nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

**Cash and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

**Accounts Receivable** - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 1 - Significant Accounting Policies (Continued)

**Inventory and Prepaid Items** - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. The reporting of retroactive infrastructure for years ending before December 31, 2001 has been excluded from capital assets (see Note 4). Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 1 - Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to financial statements.

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 6,678,941
Capital assets used in governmental activities are not financial resources and are not reported in the funds	58,234,112
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	92,135
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,070,000)
Compensated absences and provision for workers' compensation uninsured losses are not reported in the funds	(693,265)
Accrued interest payable is not reported in the funds	<u>(117,764)</u>
Government-wide net assets	<u>\$ 57,124,159</u>

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ (2,558,669)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	14,626,948
In the statement of activities, only the gain on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	130,024
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(47,746)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	740,000
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	40,682
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	12,085
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(70,697)</u>
Change in net assets of governmental activities	<u>\$ 12,872,627</u>

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 3 - Cash and Investments

The Road Commission's cash and investments of \$5,080,303 at December 31, 2003 are classified by Government Accounting Standards Board Statement No. 3 in the following categories:

Petty cash or cash on hand	\$ 400
Investments in bank investment pools and County-pooled investments	<u>5,079,903</u>
Total	<u>\$ 5,080,303</u>

#### Investments

The Road Commission is authorized by Michigan Compiled Laws Section 129.91 to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Road Commission's investments during the year consisted of bank investment pools and County pooled investments. There was \$5,079,903 invested in bank investment pools and County pooled investments.

Investments are normally categorized to give an indication of the level of risk assumed by the Road Commission; however, bank investment pools and County pooled investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Road Commission believes that the investments in these funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.



# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 3,761,387	\$ 1,319,834	\$ -	\$ 5,081,221
Capital assets being depreciated:				
Buildings and storage bins	12,563,793	201,325	-	12,765,118
Road equipment	11,711,151	1,252,742	1,434,356	11,529,537
Other equipment	1,596,689	94,846	-	1,691,535
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	27,484,661	15,250,457	-	42,735,118
Subtotal	53,492,680	16,799,370	1,434,356	68,857,694
Less accumulated depreciation for:				
Buildings and storage bins	(2,322,095)	(308,143)	-	(2,630,238)
Road equipment	(9,294,236)	(988,850)	(1,430,241)	(8,852,845)
Other equipment	(819,768)	(145,188)	-	(964,956)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	(1,204,442)	(1,915,936)	-	(3,120,378)
Subtotal	(13,776,927)	(3,358,117)	(1,430,241)	(15,704,803)
Net capital assets being depreciated	39,715,753	13,441,253	4,115	53,152,891
Net capital assets	<u>\$ 43,477,140</u>	<u>\$ 14,761,087</u>	<u>\$ 4,115</u>	<u>\$ 58,234,112</u>

Effective January 1, 2001, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Road Commission elected to implement the general provisions of the statement with the exception of the retroactive reporting of infrastructure. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the Road Commission's 2007 fiscal year. The Road Commission plans to implement the retroactive provisions for infrastructure assets (using the modified approach) in the fiscal year ending December 31, 2007.

# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2003

### Note 5 - Other Long-term Liabilities

#### Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

In 2001 and prior years, the Road Commission was uninsured for workers' compensation claims, and as such, assumed claim costs within certain limits. Open claims for those policy years were paid during the fiscal year ended December 31, 2002, as summarized below. Effective January 1, 2002, the Road Commission became a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred on or after January 1, 2002.

#### Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 5 - Other Long-term Liabilities (Continued)

Changes in the estimated liability for the past two fiscal years were as follows:

	2003	2002
Workers' compensation liability:		
Estimated liability - Beginning of year	\$ -	\$ 20,861
Estimated claims incurred	-	50,000
Claim payments	-	(70,861)
Estimated liability - End of year	-	-
Other - Compensated absences	693,265	733,947
Total other long-term liabilities	<u>\$ 693,265</u>	<u>\$ 733,947</u>

### Note 6 - Long-term Debt

#### Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2003:

	Interest Rate	Maturing Through	Principal Outstanding
1995 special assessment bonds	5.15%-5.25%	2005	\$ 50,000
1995 special assessment bonds	5.15%-5.25%	2005	90,000
Washtenaw County Building Authority bonds	4.3%-4.9%	2013	3,660,000
2000 Michigan Transportation Fund Notes, Series 2000	5.0%-6.75%	2009	570,000
2002 Michigan Transportation Fund Notes, Series 2002	3.75%-4.5%	2012	<u>2,700,000</u>
Total bonded and other contractual indebtedness			<u>\$ 7,070,000</u>

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed for the cost of the improvement. At December 31, 2003, the Road Commission has \$35,676 set aside in the Subdivision Improvements Fund for repayment of these bonds. In addition, there is approximately \$92,000 of special assessments receivable in the future; the amount of receivables delinquent at December 31, 2003 is not significant.

The Washtenaw County Building Authority debt represents bonds that were sold on behalf of the Road Commission for the construction of Yard 2.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 6 - Long-term Debt (Continued)

The 2000 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways in Scio Township.

The 2002 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on subdivisions in Ypsilanti Township.

#### Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2003:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
1995 special assessment bonds	\$ 75,000	\$ (25,000)	\$ 50,000	\$ 25,000
1995 special assessment bonds	135,000	(45,000)	90,000	45,000
Washtenaw County Building Authority bonds	3,935,000	(275,000)	3,660,000	300,000
2000 Michigan Transportation Fund Notes, Series 2000	665,000	(95,000)	570,000	95,000
2002 Michigan Transportation Fund Notes, Series 2002	<u>3,000,000</u>	<u>(300,000)</u>	<u>2,700,000</u>	<u>300,000</u>
Total bonded and other contractual indebtedness	<u>\$ 7,810,000</u>	<u>\$ (740,000)</u>	<u>\$ 7,070,000</u>	<u>\$ 765,000</u>

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 6 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2003, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest
2004	\$ 765,000	\$ 317,693
2005	765,000	285,153
2006	720,000	253,665
2007	745,000	222,193
2008	745,000	188,848
2009-2013	<u>3,330,000</u>	<u>443,565</u>
Total	<u>\$ 7,070,000</u>	<u>\$ 1,711,117</u>

#### Interest

Interest expense paid by the Road Commission for the year ended December 31, 2003 approximated \$353,000.

### Note 7 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplementary information. A comparison of actual results of operations to the Subdivision Improvement Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.

# Washtenaw County Road Commission

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## Notes to Financial Statements December 31, 2003

### Note 8 - Postemployment Benefits

The Road Commission provides health care benefits, dental benefits, and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. Currently, 149 retirees and/or surviving spouses are eligible for health care and other benefits. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and other benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$506,000.

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by resolution of the Road Commission Board.

**Annual Pension Cost** - For the year ended December 31, 2003, the Road Commission's annual pension cost of \$610,255 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.7 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

# Washtenaw County Road Commission

## Notes to Financial Statements December 31, 2003

### Note 9 - Defined Benefit Pension Plan (Continued)

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2001	2002	2003
Annual pension cost (APC)	\$ 255,130	\$ 213,485	\$ 610,255
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2000	2001	2002
Actuarial value of assets	\$ 21,416,609	\$ 22,474,326	\$ 22,566,839
Actuarial Accrued Liability (AAL) (entry age)	\$ 21,954,492	\$ 23,152,354	\$ 27,539,205
Unfunded (Overfunded) AAL	\$ 537,883	\$ 678,028	\$ 4,972,366
Funded ratio	98%	97%	82%
Covered payroll	\$ 5,393,251	\$ 5,761,249	\$ 6,054,035
UAAL as a percentage of covered payroll	10%	12%	82%

### Note 10 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at December 31, 2003, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$2,000,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

## **Required Supplementary Information**

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# Washtenaw County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
State aid - Michigan Transportation Fund	\$ 16,600,000	\$ 16,700,000	\$ 16,898,185	\$ 198,185
State trunkline maintenance	2,000,000	1,918,000	1,989,373	71,373
Federal and state sources	8,260,000	4,601,000	4,465,949	(135,051)
Revenue from local governments	4,346,000	4,178,000	4,247,331	69,331
Interest, fees, and other revenue	1,146,000	2,049,000	2,322,739	273,739
<b>Total revenue</b>	<b>32,352,000</b>	<b>29,446,000</b>	<b>29,923,577</b>	<b>477,577</b>
<b>Expenditures</b>				
Current:				
Primary construction/heavy maintenance	12,377,571	10,906,936	10,993,854	(86,918)
Local construction/heavy maintenance	6,569,022	5,574,944	5,573,472	1,472
Primary routine maintenance	5,084,407	4,742,580	4,849,843	(107,263)
Local routine maintenance	4,992,000	5,258,540	5,443,771	(185,231)
State maintenance	2,000,000	1,866,000	1,936,785	(70,785)
Equipment and capital outlay - Net of depreciation credits	590,000	370,000	216,306	153,694
Administrative	1,770,000	1,847,000	1,882,996	(35,996)
Other services	575,000	487,000	588,451	(101,451)
Debt service:				
Principal retirement	670,000	670,000	670,000	-
Interest	343,000	343,000	342,878	122
<b>Total expenditures</b>	<b>34,971,000</b>	<b>32,066,000</b>	<b>32,498,356</b>	<b>(432,356)</b>
<b>Change in Fund Balance</b>	<b>(2,619,000)</b>	<b>(2,620,000)</b>	<b>(2,574,779)</b>	<b>45,221</b>
<b>Fund Balance - January 1, 2003</b>	<b>9,218,044</b>	<b>9,218,044</b>	<b>9,218,044</b>	<b>-</b>
<b>Fund Balance - December 31, 2003</b>	<b>\$ 6,599,044</b>	<b>\$ 6,598,044</b>	<b>\$ 6,643,265</b>	<b>\$ 45,221</b>

## **Other Supplementary Information**

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# Washtenaw County Road Commission

## Other Supplementary Information Analysis of Changes in Road Fund Balances Year Ended December 31, 2003

	Primary Road	Local Road	County Road Commission	Total
<b>Revenue</b>				
State aid - Michigan Transportation Fund	\$ 12,465,419	\$ 4,432,766	\$ -	\$ 16,898,185
State trunkline maintenance	1,989,373	-	-	1,989,373
Federal and state sources	3,645,083	820,866	-	4,465,949
Revenue from local governments	784,562	3,461,530	1,239	4,247,331
Interest, fees, and other revenue	1,405,517	35,122	882,100	2,322,739
Total revenue	20,289,954	8,750,284	883,339	29,923,577
<b>Expenditures</b>				
Current:				
Primary construction/heavy maintenance	10,993,854	-	-	10,993,854
Local construction/heavy maintenance	-	5,573,472	-	5,573,472
Primary routine maintenance	4,849,843	-	-	4,849,843
Local routine maintenance	-	5,356,924	86,847	5,443,771
State maintenance	1,936,785	-	-	1,936,785
Equipment and capital outlay	249,376	47,472	(80,542)	216,306
Administrative	1,114,272	768,724	-	1,882,996
Other services	-	-	588,451	588,451
Debt service:				
Principal retirement	95,000	300,000	275,000	670,000
Interest	35,788	125,475	181,615	342,878
Total expenditures	19,274,918	12,172,067	1,051,371	32,498,356
<b>Excess of Revenue Over (Under) Expenditures</b>	1,015,036	(3,421,783)	(168,032)	(2,574,779)
<b>Other Financing Sources (Uses) - Operating</b>				
transfers in (out)	(1,271,647)	1,271,647	-	-
<b>Change in Fund Balances</b>	(256,611)	(2,150,136)	(168,032)	(2,574,779)
<b>Fund Balances - January 1, 2003</b>	6,830,431	2,150,136	237,477	9,218,044
<b>Fund Balances - December 31, 2003</b>	<u>\$ 6,573,820</u>	<u>\$ -</u>	<u>\$ 69,445</u>	<u>\$ 6,643,265</u>